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The attached memorandum was prepared for the DCI at the request of the DDI.



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Chief, Near East/Africa Branch
Developing Nations Division
Office of Economic Research

25 January 1974
(DATE)

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MEMORANDUM

Is the United States Indirectly Financing
Middle East Purchases of Soviet Arms?

There is no indication that earnings from US trade or credits are indirectly involved in the purchase of Soviet arms by any Middle East or North African country. First of all, it should be noted that the US characteristically has a favorable trade balance with nearly all countries of the area. Where, as in the case of Algeria and Libya, the US buys more than it sells, the trade deficit is believed to be more than offset by profit repatriation, thereby yielding a favorable US balance of payments. In short, the US earns more from than it pays out to the various countries of the area.

Purchases of Soviet arms by the major Arab belligerents in the October war -- Egypt, Syria, and Iraq -- have continued to be financed largely by long-term credits repayable in commodities. In selected cases where oil-producing Arab states have paid the USSR for arms delivered to Egypt and Syria, we observe that foreign reserve holdings were more than adequate to cover such outlays and, as pointed out previously, the US does not contribute to these reserve holdings. In the case of Iran, which is a sizeable purchaser of Soviet arms, payments are made in the form of natural gas deliveries.

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